

Message Text

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ACTION NEA-10

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TAGS: ENRG, NP

SUBJ: PETROLEUM SUPPLIES

1. FOR LAST TWO DAYS NEPALESE PRESS HAS CARRIED ARTICLES REPORTING GOI DECISION TO SUSPEND SUPPLY OF PETROLEUM PRODUCTS TO NEPAL BEGINNING JANUARY 1, 1975. PRESS REPORTS INDICATE THAT GON, ANTICIPATING GOI ACTION, HAS BEEN ACTIVELY SEARCHING FOR PETROLEUM SUPPLIES FROM THIRD COUNTRIES, AND HAS SO FAR PROCURED SUFFICIENT PETROLEUM TO CARRY NEPAL FOR NEXT FIVE TO SIX MONTHS. SOVIET UNION, GULF STATES, AND PRC ARE MENTIONED AS MAIN THIRD COUNTRY SOURCES.

2. UNTIL LAST YEAR NEPAL OBTAINED VIRTUALLY ALL OF ITS PETROLEUM SUPPLIES FROM INDIA, WITH PAYMENT BEING MADE IN INDIAN RUPEES. AT TIME OF OIL CRISIS IN LATE 1973 GOI, HOWEVER, TOLD GON THAT IT WOULD NO LONGER BE ABLE TO SUPPLY
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ALL OF NEPAL'S NEEDS, BUT WOULD CONTINUE TO SUPPLY

PETROLEUM AT 1972-73 LEVEL AGAINST PAYMENT IN INDIAN RUPEES. INCREMENTS ABOVE THIS LEVEL COULD BE OBTAINED FROM INDIA, IF AVAILABLE, THROUGH PAYMENT IN FOREIGN EXCHANGE, OR NEPAL COULD SEARCH FOR CRUDE AND PRODUCTS IN THIRD COUNTRY MARKETS. IN LATTER CASE, GOI WOULD BE WILLING PROCESS AND HANDLE PETROLEUM FOR NEPAL, WITH PAYMENT IN RUPEES.

3. DUE SUPPLY DIFFICULTIES IN INDIA AND COST OF CRUDE IMPORTS, GOI HAS NOW DECIDED THAT IT CAN NO LONGER PROVIDE PETROLEUM TO NEPAL AT 1972-73 LEVELS. GOI REMAINS WILLING, HOWEVER, TO REFINE AND TRANSPORT ANY PETROLEUM THAT GON OBTAINS IN THIRD MARKETS, AND TO ACCEPT PAYMENT FOR THESE SERVICES IN INDIAN RUPEES. INDIAN AMB RASGOTRA TOLD DCM RECENTLY THAT GOI DECISION WAS CONVEYED TO GON IN FEBRUARY. (FOREIGN MINISTRY SOURCES CONFIRM THAT GOI INFORMED GON OF DECISION ON PETROLEUM SOME TIME AGO, AND THAT DECISION THEREFORE HAD NOTHING TO DO WITH SIKKIM EVENTS.) ACCORDING TO AMB RASGOTRA FOR SEVERAL MONTHS GOI HAS BEEN SUPPLYING EXPERTS FROM INDIAN OIL CORPORATION TO INSTRUCT NEPALESE IN WORKINGS OF INTERNATIONAL OIL MARKET AND MEANS FOR PROCURING SUPPLIES IN INTERNATIONAL AUCTIONS. FURTHER, RASGOTRA REPORTED THAT GOI OFFERED TO PROVIDE CONSTRUCTION MATERIALS, SUCH AS STEEL, TO NEPAL FOR CONSTRUCTION OF TANK STORAGE FARM FOR PETROLEUM, BUT THAT GON DELAYED SO LONG IN REACHING DECISION THAT GOI FOUND IT NECESSARY TO USE SUPPLIES ELSEWHERE. WITH REGARD TO SUPPLY SITUATION, RASGOTRA THOUGHT THAT NEPAL HAD ALREADY STOCKPILED SUFFICIENT SUPPLIES TO LAST FOR THREE TO FOUR MONTHS. IN THIS CONNECTION, HE SAID THAT NEPAL'S IMPORTS OF PETROLEUM FROM INDIA DURING FIRST NINE MONTHS OF THE CURRENT YEAR EXCEEDED LEVEL OF IMPORTS DURING COMPARABLE PERIOD IN PRIVIOUS UEAR.

4. COMMENT: WHILE MOST PRESS ARTICLES HAVE KEPT CLOSE TO FACTS, INDEPENDENT MOTHERLAND EDITORIALIZED THAT GON HAS TRIED TO PLAY DOWN SIGNIFICANCE OF GOI DECISION, WHICH MOTHERLAND VIEWS AS GRAVE, GIVEN EFFECT ON NEPAL. AT THIS POINT IT IS DIFFICULT FOR US TO ESTIMATE TOTAL IMPOACT. RELIANCE ON THIRD COUNRIES CAN BE EXPECTED TO INCREASE SIGNIFICANTLY PETROLEUM COSTS FOR NEPAL, AS FULL RANGE OF PRICE INCREASES IN INTERNATIONAL MARKETS WERE NEVER PASSED LIMITED OFFICIAL USE

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ON BY GOI TO NEPAL. COST OF PETROLEUM IMPORTS IN 1973 WAS ABOUT \$6 MILLION. GIVEN INCREASING DEMAND AND HIGH LEVEL INTERNATIONAL PRICES, PETROLEUM IMPORT BILL IN NEXT YEAR COULD RANGE ANYWHERE FROM FIFTEEN TO TWENTY MILLION DOLARS. (NEPAL'S HOLDINGS OF FOREIGN EXCHANGE RESERVES, EXCLUDING INDIAN RUPEES, APPROXIMATES \$110 MILLION.) BILL COULD BE REDUCED, HOWEVER, IF NEPAL IS SUCCESSFUL IN WORKING OUT FAVORABLE ARRANGEMENTS WITH MIDDLE EAST OR OTHER COUNTRIES

SUPPLIERS HAVING AID PRESENCE IN NEPAL, SUCH AS SOVIET UNION
AND PRC, OR IF IT ELECTS TO LIMIT CONSUMPTION SEVERELY. IN
FORMER CONNECTION, SOVIET UNION HAS REPORTEDLY AGREED TO SUPPLY
25,000 TONS OF DIESEL OIL AT CHEAP RATE. PRC HAS PROVIDED
LUBRICANTS IN PAST BUT POLITICAL PROBLEMS
COULD ARISE IF NEPALESE TRIED TO PROCESS LARGE
QUANTITIES OF CHINESE CRUDE IN INDIAN REFINEREIES.
ADDITIONAL PROBLEM IS THAT NEPAL OIL CORPORATION HAS PROVEN
ITSELF TO BE AN EXTREMELY INEFFICIENT AGENCY, WITH RESULT THAT
PETROLEUM SHORTAGES HAVE BEEN UNNECESSARILY AGGRAVATED.
ALTHOUGH NEED FOR STORAGE FACILITIES FOR EXAMPLE HAS LONG
BEEN RECOGNIZED, LITTLE HAS BEEN DONE. IN SUM WE ANTICIPATE
PROLONGED PERIOD OF SHORTAGE WITH CONCOMITANT ADVERSE IMPACT
ON PUBLIC MORALE AND DEVELOPMENT PROSPECTS. CARGO

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